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Executive Board of the United Nations Entity for Gender Equality and the Empowerment of Women

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Audit matters

Report of the Audit Advisory Committee for the period from 1 January to 31 December 2017

I. Introduction

1. Pursuant to item 29 of the terms of reference of the Audit Advisory Committee (AAC), the sixth report of the Committee to the Under-Secretary-General/Executive Director of the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women) provides a summary of the activities undertaken and the advice given by the AAC in 2017. The present report is made available to the Executive Board, and upon request, the Chair presents the report to the Board.

Background

2. In May 2012, the Under-Secretary-General/Executive Director of UN-Women approved the original terms of reference of an oversight committee, to be known as the AAC. The terms of reference may be modified from time to time, as necessary. In January 2017, the Under-Secretary-General/Executive Director approved revised terms of reference, which are available from www.unwomen.org/en/about-us/accountability/audit.

3. Item 1 of the terms of reference describes the Committee as having been established to provide the Under-Secretary-General/Executive Director with independent, external advice based on good practice regarding the organization's accountability framework and systems, including risk management. The Committee assists the Head of the Entity in fulfilling her oversight responsibilities in accordance with relevant best practices. The Committee has an advisory role and is not a governance body; no language or clauses in the terms of reference are intended to imply otherwise.

4. In September 2012, the Under-Secretary-General/Executive Director formally constituted the AAC to enhance accountability and "promote proper governance and high ethical standards, as well as the adoption and use by management of best practices in risk and financial management" within UN Women, in accordance with item 2 of the terms of reference.

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5. As at 31 December 2017, the Committee comprised five members, as contemplated by its terms of reference. Those members are William Fowler (United States of America); Patricia Francis (Jamaica); Elizabeth MacRae (Canada); Yuen Teen Mak (Singapore); and Mary Ann Wyrsch (United States of America). The Committee as a whole is made up of experts in financial reporting and programme matters, accounting, governance, internal audit and investigation, evaluation, external audit, internal control, and risk management practices and principles, and United Nations intergovernmental and normative work and processes.

6. In accordance with items 6 and 7 of the terms of reference, all Committee members are independent of and external to UN-Women. Additionally, Committee members complete an annual confirmation of independence for the Under-Secretary-General/Executive Director that assures the transparency of Committee members fulfilling their roles, without compromising any interests.

II. Audit Advisory Committee activities and advice as at 31 December 2017

7. In 2017, the Committee held three face-to-face meetings, from 18 to 20 April, from 18 to 20 July and from 13 to 15 November. UN-Women participants in the meetings included the Under-Secretary-General/Executive Director, the two Deputy Executive Directors and relevant representatives of programme and operational senior management. As required, the Committee also met without management present and had separate in-camera meetings with the Under-Secretary-General/Executive Director, the Board of Auditors and the Director of the Office of Audit and Investigations of the United Nations Development Programme, which is the Office responsible for the UN-Women Audit Unit. The Committee also met with UN-Women's Legal Officer and representatives of the UN Ethics Office. The Chair of the Committee participated in the annual session of the Executive Board in June 2017. In addition to formal meetings, Committee members continued their internal consultations and deliberations, document review and provision of advice to UN-Women management via telephone and e-mail interaction.

8. Minutes from the meetings were prepared and approved. The Committee interacts regularly with the Under-Secretary-General/Executive Director during each meeting and formally reports on its deliberations after each on-site meeting.

9. In December 2017, two Committee members participated in a five-day field visit to the regional office of UN-Women in Senegal and the Entity's country office in Nigeria. The objective of the field visit was to enable Committee members to better understand field operations, gain an appreciation for how the business objectives of UN-Women are achieved, and effectively carry out their oversight role and add value to UN-Women. Key observations from the field visit were shared with fellow Committee members and UN-Women management.

A. Board of Auditors

10. The Committee has met regularly with the Board of Auditors (BoAs) to share relevant information and understand the strategies implemented to ensure overall audit coverage for UN-Women, which includes the work performed by the UN-Women Audit Unit.

11. The Committee has also regularly been updated on the implementation status of the recommendations contained in the BoAs' management letters and reports. The Committee supports efforts by UN-Women to implement outstanding

recommendations in a timely manner and within available resources. The Committee underscores the importance that UN-Women address the underlying systemic and strategic issues contained in those recommendations with sustainable solutions in a consistent and ongoing basis to ensure the efficiency and effectiveness of the Entity's programme and mandate delivery.

B. Regional architecture and organizational challenges

12. The Committee has been briefed extensively by senior management on the organizational challenges that UN-Women has experienced since its formal inception in 2011, when four entities of the United Nations were combined to create UN-Women.

13. In 2014, the implementation of the regional architecture of UN-Women was completed. As noted in the Committee's previous reports, the regional architecture was one of the Entity's organizational priorities. An independent evaluation of the regional architecture was completed in 2016, and UN-Women has indicated that it is working to address the recommendations.

14. In response to the evaluation, the Committee understands that during 2017 UN-Women began to review its global presence to identify responsibilities for and differences in programme delivery and operations among regional offices, multi-country offices, country offices and programme presence. The Committee further understands that UN-Women is developing policy and guidance to assess country differentiated presence typology and make appropriate structural adjustments in line with the Strategic Plan 2018–2021. It is important that UN-Women promulgate those country-office typology principles as soon as is realistic and implement the identified changes in its global footprint, taking into consideration UN Development System reforms.

15. Also in line with commitments made by UN-Women in its management response to the evaluation, the Entity undertook a Headquarters' Functional Analysis and a strategic business planning exercise (which included proposals for contingency planning in 2018–2019). The results of these reviews are being discussed by senior management and may inform change management initiatives to support the implementation of the new Strategic Plan. The Committee views these activities as being of prime importance, particularly in view of current UN reform initiatives. The Committee commends UN-Women on its leadership in this area. The Committee further encourages the Entity to explore its unique niche in the UN system, for example, its UN coordination role and intergovernmental normative support for gender equality and empowerment for women and girls, which takes place in the context of its operational activities and through its field presence. The Committee looks forward to more discussion on UN-Women's change management initiatives and on its way forward, including its positioning within the UN reform agenda.

16. As part of this discussion, UN-Women needs to continue to assess and implement appropriate structures to support its Second Line of Defense at headquarters and in the field. The Committee understands that financial specialists have been identified in regional offices as part of the Virtual Global Service Center (VGSC) to support field operations. As noted in previous Committee reports, it may also be prudent to identify human resource specialist positions in the regional offices as well as organizational focal points in field offices for the ethics function.

17. The Committee also understands that UN-Women continues to update its Human Resource Strategy, implement organizational development initiatives, enhance career development and performance management, and address issues raised as a result of

its 2016 Global Workforce Survey, particularly those related to work-life balance. The Committee looks forward to further discussion on human resource initiatives.

C. Programming activities

18. The Committee continues to support UN-Women in its 2015 initiative to move to Flagship Programming Initiatives (FPIs) to further align the Entity's normative, UN coordination and operational work, thus improving overall programmatic clarity. The Committee understands that the FPIs do provide a strategic direction for the Entity at large and support countries in their efforts to implement the 2030 Agenda for Sustainable Development. However, additional direction and feedback from Headquarters may be needed in order to implement FPIs more effectively at a country level. Further, it may be helpful to clarify responsibilities and roles of Headquarters' units and their relationships with field offices to ensure effective integration and programme delivery.

19. During 2017, the Entity continued to improve its results-based management system (RMS), which is intended to place a greater focus on results and value, simplify the management and reporting of performance indicators, and provide a more direct link between programme results and budget expenditures/financial flows. For example, the Country Office Assessment Tool (COAT) was enhanced to include data from various sources providing managers with a holistic overview of office performance to support data driven management, planning and monitoring.

20. The Committee underscores the importance of providing appropriate language-sensitive training and capacity building when rolling out results-based management tools in order to support their sustainable usage and result in the efficiency gains desired and needed.

21. The Committee supports UN-Women in continuing to enhance its RMS and build strong monitoring systems in the field. The Committee understands that UN-Women is also strengthening enterprise risk management integration with RMS through, for example, including annual risk registers as part of the annual work planning process.

22. The Committee reiterates that UN-Women continues to monitor closely the management of advances made to implementing partners to fully address the underlying causes/systemic weaknesses of the long outstanding advances and mitigate the risk that such funds could be used for unintended activities. It is also important to address the issue of late financial project closure, particularly at Headquarters. Such issues can affect UN-Women's reputational risk. It is important that improved awareness of all such risks and their impact is understood and embedded within UN-Women's internal culture.

D. Funding framework and resource mobilization

23. The Committee appreciates the elements included and the complexities of UN-Women's Funding Framework and budgetary processes. The Committee reiterates the importance of ensuring transparency and cost alignment in the funding framework in line with agreed cost classifications.

24. One key aspect of UN-Women's financial realities is its resource mobilization targets and strategies, on which the Committee is updated regularly. As noted in previous reports, the Committee has been advised of the potential opportunities that the regional architecture may present to strengthen and increase the linkages for inter-agency coordination and resource mobilization at the local level. The Committee

underscores the importance that resource mobilization efforts in the field match the revised strategic direction and focus on UN-Women's unique role in the field. Assessment of the respective country context is needed to establish realistic goals and activities for country offices to facilitate effective working relationships among the partnering country, UN-Women and other UN agencies.

25. The Committee continues to note the Entity's ongoing challenges regarding resource mobilization and understands that resource mobilization remains the highest organizational risk for the Entity. In view of its high risk, a resource mobilization performance audit was conducted during 2017, where the resource mobilization function of UN-Women was assessed as partially satisfactory/major improvement needed. "This rating was mainly due to: unclear responsibility and accountability for corporate resource mobilization; and inadequate processes for the development, monitoring and approval of the corporate resource mobilization strategy and action plans." UN-Women has provided comments and an action plan to address the recommendations included in the audit. The Committee looks forward to updates with respect to implementation of the recommendations.

26. In 2017, the Committee understands that UN-Women initiated drafting a new resource mobilization strategy, which will identify approaches to expand core and non-core member state support and grow private sector income; for example, increasing the numbers and scope of strategic business partnerships and developing public giving through new direct marketing programmes and infrastructure.

27. The Committee also understands that during 2017 the resource mobilization team was reorganized to allow greater focus on deepening and diversifying resource mobilization. Further, additional internal capacity and professionalization is being built through, for example, establishing Communities of Practice to encourage exchange of best practices internally and with other UN agencies.

28. However, the Committee reiterates the importance of realistic targets and clear assignment of responsibility and accountability for resource mobilization for both core and non-core resources. Without such clarity, the risks of not meeting resource requirements are increased, and resources may not be sufficient for UN Women to carry out its mandate.

29. The Committee encourages UN-Women to continue to identify innovative solutions to resource mobilization at Headquarters and in the field, including the use of social media tools. The pace of resource mobilization clearly needs to be accelerated and delivery through implementing partners needs to be more effective. The Committee reiterates the importance of UN-Women focusing on quality and capacity of implementing partners and supports its continued advocacy and private sector engagement efforts. The Committee further encourages UN-Women to align its resource mobilization strategies with its strategic vision for the Entity, and its regions, and to provide increased internal capacity, along with new organizational arrangements, if necessary.

E. Enterprise risk management

30. In 2017, UN-Women continued to implement its enterprise risk management strategy by embedding and mainstreaming risk management into its business processes. The Committee underscores the importance of achieving a working culture in which risk assessment is understood as a helpful management tool and an investment in future programmatic success instead of an additional burden.

31. The Committee recommends that further awareness of the value and necessity of risk management is needed to support its sustainable integration into day-to-day

operations, particularly with respect to risk ownership in the field. The Committee understands that UN-Women will include a component on enterprise risk management as a fundamental part of its programme management-training curriculum. The Committee also underscores the importance of building awareness of fraud risk management. The Committee supports UN-Women's efforts to date.

32. The Committee reiterates the importance of both the Board of Auditors and internal auditors being cognizant of the enterprise risk-management framework and its components such that current risk profiles and registers inform audit plans, as necessary.

F. Internal audit

33. The UN-Women internal audit and investigation functions have been carried out under a Service Level Agreement (SLA) between UN-Women and the Office of Audit and Investigations (OAI) of the United Nations Development Programme (UNDP) since March of 2012.

34. In 2014, UN-Women commenced the process of determining whether value for money was obtained through outsourcing the internal audit function or whether an in-house internal audit function would be preferable. In 2017, UN-Women identified options for the most appropriate model to deliver internal auditing, including the financial resources required for the management and administrative structure of the function and its implementation.

35. The AAC reviewed and discussed in detail the options identified and supported UN-Women's recommendation to move forward with the establishment of one organizational unit beginning in 2018 that would bring the independent assurance functions of internal audit and evaluation under an integrated umbrella. As noted in the Committee's 2016 report, such an oversight unit could create synergies between the functions, improve effectiveness and value-for-money, and support increased overall assurance with respect to UN-Women's operations, programmes, and performance. However, in doing so, the Committee continues to emphasize that the necessary safeguards are put in place to ensure that the independence and results expected of the two functions are not jeopardized.

36. To support the planning and implementation of the in-house internal audit function, the Committee provided ongoing advice to UN-Women management. For example, the Committee reviewed the Charters of the Independent Evaluation and Audit Services (IEAS) and the Internal Audit Service (IAS), as well as the IEAS Multi-year (2018–2021) Rolling Risk-based Audit Plan and Strategy. The Committee Chair also participated on the recruitment interview panels for the Director of the IEAS and the Chief of the IAS.

37. The Committee commends UN-Women to-date in transitioning internal audit by, among other things, contracting with an expert oversight professional to assist in its implementation and working closely with OAI to adopt relevant internal audit policies, procedures and systems. Furthermore, the SLA between UN-Women and OAI was extended to 31 March 2018 to facilitate completion of ongoing internal audit reports and support a smooth transition to the new audit unit.

38. The Committee also recommended in its 2014 report that, as part of the process of studying options for the most appropriate internal audit model, UN-Women determine the level of audit assurance required. This is particularly important in view of the audit opinion required by Executive Board decision 2015/4. The annual audit opinion is now based on the internal audit work performed during the year, and currently the audit coverage is somewhat limited. The Committee trusts that this

coverage can be augmented in future years and supports the continued strengthening of the internal audit services of UN-Women in order to ensure sufficiency of audit coverage in audit plans, further to Executive Board's decision No. 2015/4.

39. Further, it is important that the in-house internal audit unit and the BoAs engage in ongoing communication to enhance planning and coordination, thus ensuring appropriately aligned audit coverage and the complementarity of the audit functions. This is particularly relevant in view of the annual audit opinion requested by the Executive Board, noted in paragraph 38. In addition to assurance from internal efforts, the external audit coverage adds another aspect of assurance and strengthens the overall assurance provided to the Entity.

40. The Committee reviewed the annual internal audit workplans for both 2017 and 2018, which were developed by the UN-Women Audit Unit in OAI. The 2018 internal audit workplan was subsequently revised by the IAS to reflect organizational risk issues and was again reviewed and endorsed by the Committee.

41. In 2017, the annual risk assessments of headquarters' entities and processes and field offices were refined to reflect changes to UN-Women's organizational structure and strategic and operational priorities. It is important that the annual internal audit risk assessment exercise also leverages the results of the Entity's risk registers, developed as part of its enterprise risk management framework.

42. The Committee was provided with quarterly progress reports and briefed on the results of the various audit engagements performed during 2017, including systemic and recurring issues of interest. It is important that UN-Women address recurring audit issues, such as those in field offices, relating to delays in strategizing and initiation of mobilization of funds, inadequate project monitoring and oversight, and weaknesses in asset management, and those dealing with Entity-wide or corporate issues.

G. Investigations

43. The Committee received regular updates from OAI, which provided an overview of the investigation caseload, the breakdown of the nature of the allegations, and the status of the cases.

44. In 2017, UN-Women assessed the quality and timeliness of services provided by OAI for its investigation function and developed options identifying the most appropriate modality to deliver this function effectively with the commensurate resources.

45. Beginning in 2018, the investigation function will be carried out pursuant to a Service Level Agreement between UN-Women and the United Nations Office of Internal Oversight Services (OIOS), a copy of which was reviewed by Committee members who recommended some revisions for consideration.

46. Because the investigation function continues to be out-sourced, it is important that the designated responsible official within UN-Women be the Director of the Independent Evaluation and Audit Services who reports directly to the Under-Secretary-General/Executive Director. The assignment of such responsibilities to this independent oversight office is in line with best practice. The IEAS office would provide the Under-Secretary-General/Executive Director with reports setting out the current investigation cases as well as identifying the action taken and any follow up required by UN-Women management. Under this arrangement, UN-Women can satisfy itself that there is appropriate follow-up for cases that warrant investigation and further action, and that UN-Women's accountability for decision-making and results is assured.

47. The Committee also notes the decrease in new investigation cases in 2017, compared to 2016. It is important that UN-Women continue to focus on creating a greater awareness of the reporting obligation and the channels to do so.

48. The Committee commends UN-Women on developing its own "Anti-fraud policy" in 2017 to strengthen its approach to fraud and corruption, which will provide UN-Women staff, implementing partners, as well as vendors, with a clear policy on fraud prevention, detection and response.

H. Evaluation function

49. The Independent Evaluation Office shared its 2016 Report on the Evaluation Function at UN-Women as well as its Corporate Evaluation Plan 2018–2021. The Committee understands that corporate and decentralized evaluation plans are aligned with the current Strategic Plan, and as such, evaluations can be used to assess achievements expected in the Plan. The Committee further understands that evaluation results are widely shared within UN-Women to effect positive change through increasing knowledge and improving performance.

50. Further to the organizational change that situates internal audit and independent evaluation into one Headquarters organizational unit, as noted in paragraph 35, the Committee continues to stress the importance of appropriate centralized and decentralized resourcing of the evaluation function. The Committee understands that the Regional Evaluation Specialists play a major role in supporting decentralized evaluations through quality assurance and technical advice as well as management of regional evaluations. The Committee notes the high degree of coordination between headquarters and evaluation specialists in the regions and underscores the importance of maintaining the direct reporting relationship of the Regional Evaluation Specialists to the head of the independent evaluation function.

51. As noted in its 2016 annual report, the Committee understands that the future projected budget for the evaluation function is 3 per cent of UN-Women's total plan/programme budget, as recommended in its evaluation policy. The Committee believes that this percentage appears high, given the size of UN-Women and the resource challenges that it faces. With the establishment of one organizational unit for independent evaluation and audit services, economies of scale may materialize. It may be possible for UN-Women to focus additional resources on areas such as programme monitoring, risk mitigation and results measurement.

I. Ethics

52. In 2011, UN-Women established an institutional arrangement with the UN Ethics Office to provide ethics services to the Entity.

53. In 2017, to strengthen the culture of ethics and integrity at UN-Women, UN-Women initiated more interaction and communication between UN-Women senior management (including UN-Women's Legal Advisor) and the UN Ethics Office. UN-Women established a functioning focal point for ethics liaison in UN-Women to ensure that the Under-Secretary-General/Executive Director is regularly informed of ongoing activities in this area.

54. The Committee understands that UN-Women has developed a new ethics policy, to be promulgated in 2018, accompanied by detailed training, which will encourage a speak-up culture within the Entity and provide UN-Women staff competencies needed to detect and report wrong-doing, knowledge on how to protect against retaliation, as well as managerial skills related to respective rules and regulations.

The Committee looks forward to further updates on this policy and its implementation and encourages language-sensitive training to ensure the desired impact is achieved.

J. Financial statements

55. The Committee reviewed the draft financial statements for the year ended 31 December 2016. The Committee commends UN-Women on receiving an unqualified audit opinion from the Board of Auditors for the sixth consecutive year since its inception in 2010. The financial reporting for UN-Women continues to improve and refinements continue to be made, as necessary.

K. Information and Communication Technology

56. The Committee is regularly updated on information and communication technology (ICT) initiatives. The Committee supports positioning ICT as a strategic enabler and underscores the importance of investment in ICT to ensure optimal IT solutions. The Committee notes that in Headquarters the ratio of consultants to UN-Women staff is high, which could pose a future risk to the entity, particularly in view of the increasing risk and complexity of UN-Women's ICT system environment.

L. Strategic Plan 2018-2021

57. The Committee was regularly updated on the development of the Strategic Plan 2018-2021, the participatory approach in which UN–Women engaged extensively with Member States, its underlying theory of change, and the evolving results framework. The Committee understands that UN-Women's triple mandate (normative/operational/UN coordination) will have a greater focus on leveraging its strengths in UN coordination and policy advice/intergovernmental support, to achieve substantive results and support effective programme delivery thus adding more value to stakeholders.

III. Final considerations

58. The Committee has reviewed the Report on internal audit and investigation activities for the period from 1 January to 31 December 2017 (UNW/2018/4), to be submitted to the Executive Board at its annual session, and has taken note of the significant internal audit results identified.

59. The Committee expresses its support for the continued strengthening of governance, risk management, internal controls and accountability at UN-Women. However, the Committee continues to be concerned that the current funding situation of UN-Women may affect its ability to adequately resource key accountability functions and activities such as internal audit (including increasing internal audit coverage), enterprise risk management, and monitoring and oversight, which includes functions in the Second Line of Defence in Headquarters and the field.

60. The Committee supports the continued collaboration of UN-Women with partners within and outside the United Nations in achieving its strategic objectives in advancing gender equality, promoting the empowerment of women and girls and ending violence against women.